

**New Issue: MOODY'S ASSIGNS Aaa RATING TO THE CITY OF COLUMBUS SERIES 2010A THROUGH SERIES 2010E GENERAL OBLIGATION BONDS; THE CITY'S OUTLOOK IS STABLE**

Global Credit Research - 21 Jul 2010

**Aaa RATING APPLIES TO TOTAL OUTSTANDING GOULT AND GOLT DEBT OF \$1.95 BILLION**

Municipality  
OH

**Moody's Rating  
ISSUE**

**RATING**

Various Purpose Unlimited Tax Bonds, Series 2010A	Aaa
<b>Sale Amount</b>	\$129,245,000
<b>Expected Sale Date</b>	07/30/10
<b>Rating Description</b>	General Obligation
Various Purpose Limited Tax Bonds, Series 2010B	Aaa
<b>Sale Amount</b>	\$16,315,000
<b>Expected Sale Date</b>	07/30/10
<b>Rating Description</b>	General Obligation Limited Tax
Various Purpose Unlimited Tax Build America Bonds (Federal Taxable - Direct Payment), Series 2010C	Aaa
<b>Sale Amount</b>	\$266,380,000
<b>Expected Sale Date</b>	07/30/10
<b>Rating Description</b>	General Obligation
Various Purpose Limited Tax Build America Bonds (Federal Taxable - Direct Payment), Series 2010D	Aaa
<b>Sale Amount</b>	\$14,040,000
<b>Expected Sale Date</b>	07/30/10
<b>Rating Description</b>	General Obligation Limited Tax
Various Purpose Limited Tax Bonds (Taxable), Series 2010E	Aaa
<b>Sale Amount</b>	\$5,735,000
<b>Expected Sale Date</b>	07/30/10
<b>Rating Description</b>	General Obligation Limited Tax

**Opinion**

NEW YORK, Jul 21, 2010 -- Moody's Investors Service has assigned a Aaa rating to the City of Columbus' \$129.245 Various Purpose Unlimited Tax Bonds, Series 2010A; \$16.315M Various Purpose Limited Tax Bonds, Series 2010B; \$266.38 million Various Purpose Unlimited Tax Build America Bonds (Federal Taxable - Direct Payment), Series 2010C; \$14.04 million Various Purpose Limited Tax Build America Bonds (Federal Taxable - Direct Payment), Series 2010D; \$5.375 million Various Purpose Limited Tax Bonds (Taxable), Series 2010E. Concurrently, we have affirmed the Aaa rating on the city's previously issued GOLT and GOULT debt. Including the current offering, the city has \$1.95 billion of outstanding GO debt. At this time, we are also affirming the Aa2 on the city's Series 2005A Riversouth Area Redevelopment Lease Rental Appropriation Bonds, which are notched from the city's GO rating due to the risk of non-appropriation and the non-essentiality of the redevelopment project financed by the bonds. The outlook on the city's credit is stable. The General Obligation Unlimited Tax bonds are secured by an unlimited levy on city property for the repayment of debt; the General Obligation Limited Tax bonds are secured by a full faith and credit taxing pledge, subject to statutory 10-mill limitation, per Ohio state code. The lack of rating distinction between the general obligation unlimited and limited tax debt reflects the state requirement that Ohio cities use all available revenues, including available property tax millage currently assigned to operations for the city and overlapping taxing entities.

Proceeds of the bonds will finance various capital projects, with up to \$55 million that will refund outstanding bonds for debt service savings. The capital projects being financed reflect general capital improvement projects throughout the city, including \$178 million for water system improvements; \$54 million for sanitary sewer improvements; \$50 million for road and parking improvements; \$24 million for parks and recreation projects; and \$24 million for public safety and health projects. These major projects comprise a portion of the city's long-term CIP bond financing approved by voters in November 2004 and November 2008. The Series 2010C and Series 2010D Build America Bonds are subject to extraordinary option redemption at the option of the city in the event that the Federal Treasury ceases to make full payment of the debt service subsidy on the bonds.

The Aaa rating and stable outlook on the city's \$1.95 billion of General Obligation Unlimited and Limited Tax debt reflects the city's large and diverse economy that benefits from large stabilizing institutions; conservatively managed debt profile, strengthened by substantial untapped levy authority; and satisfactory financial operations that are supported by ample alternate liquidity and prudent fiscal policies and management.

## Strengths

- Sizeable tax base that benefits from its central role in the state and regional economy and the stabilizing effect of major institutions including federal, state, and local government, major health care institutions, and The Ohio State University, one of the largest universities in the country.

- Prudent fiscal and debt management policies and practices that help to support a healthy financial position over the long-term and insure timely repayment of debt obligations, despite cyclical economic challenges.

- An expectation that the city will restore depleted reserves with the additional revenues generated from the recent 1/2% income tax rate increase that is expected to generate nearly \$100 million annually.

- Demonstrated political and public support for budgetary adjustments and revenue enhancements when needed.

## Challenges

- Dependency on income tax revenues that cycle with economic conditions.

Notably illustrated by income tax shortfalls in FY2008 and continuing into

FY2009 that required significant use of the city's General Fund balances.

- Continued expenditure growth challenges, including the restoration of staffing and maintenance of service levels that may compete with the city's ability to leverage new revenue streams to replenish depleted reserves.

- Recent reversals of income tax revenue growth could indicate a fundamental decline in the income tax base, particularly if recovery from the recession lags expectations.

## LARGE ECONOMIC BASE EXPECTED TO REMAIN STABLE, DUE TO SIGNIFICANT INSTITUTIONAL PRESENCE

Located in the center of the state, Columbus is Ohio's capital city and, unlike many other large cities which have lost population over the last decade, population growth and economic investment in Columbus remain strong. Population increased 12.4% between the 1990 and 2000 census, with current census estimates at 755,000, or a 6.1% increase from the 2000 census count. The city's full value is a sizeable \$47.6 billion, but average annual taxable value growth has been limited due to the state's phase out of tangible personal property values coupled with modest new construction growth. Further, while the city saw a 10.3% increase in assessed valuation during the sexennial reappraisal in 2006, the recent triennial update was muted by the county's decision to apply a 0% growth rate to all residential properties. As a result, the city's average annual full valuation growth has fallen to a minimal 1.1%. However, Moody's does not believe that this trend fully captures development activity in the property tax base as a significant portion of new growth has occurred in tax increment districts. Exempted real property reached \$4.1 billion, or approximately one-quarter of total assessed valuation in 2009.

Moody's expects economic expansion and population growth trends to remain moderate, yet stable, given the city's stable employment environment which is anchored by the local, state, and federal governments' operations, along with sizable university and health care sectors. Among the city's top employers are the State of Ohio (GO rated Aa2, with negative outlook), the Federal government, the headquarters for OhioHealth (revenue bonds rated Aa2, with stable outlook), and The Ohio State University (general receipts rated Aa2, with stable outlook). The diversity and stability of employers in the region are important as the city's primary revenue source comes from an income tax levied on all who work and reside in the city, although a full credit is granted for any income taxes paid to another municipality.

The city's historical practice of annexing large tracts of undeveloped land and providing the new acreage with water and sewer infrastructure has been key to past expansion, including successful mixed use commercial parks such as Polaris Park and Easton Center, and Rickenbacker International Airport. While moderate annexation activity continues as needed based on residential and commercial growth, the city has focused on redevelopment and revitalization of its downtown in recent years. The construction of a downtown ice hockey arena, home to the National Hockey League's Blue Jackets, has fostered additional commercial and residential development in the Arena District. Most recently, the county has relocated its minor league baseball stadium to the Arena District, which is expected to further boost downtown activity. The RiverSouth Authority, an independent development entity, continues to spearhead significant redevelopment in the downtown district bounded by High Street on the east and the Scioto River on the west. Its first major project, the rehabilitation of the Lazarus Building into office space is complete with 90% occupancy. Further evidencing the city's commitment to downtown redevelopment, the city recently acquired and demolished a downtown mall that had suffered from high vacancy rates and will be redeveloped into a park with surrounding development. Major projects that have been recently announced including the expansion of Nationwide Children's Hospital, expansion of Nationwide Insurance, and a \$1 billion project for The Ohio State University's new medical center that will generate 6,000 new jobs over five years. Columbus is also one of four Ohio cities in which a new casino will be located, per recent constitutional amendments.

Census data indicates that city income levels just lag those of the state with per capita and median family income at 97.4% and 94.7% of state figures, respectively. Although unemployment rates have increased in the recent recession, the city's unemployment remains lower than the state, with May 2010 rates at 8.7% and 10.1%, respectively. The US rate for the same period was 9.3%.

## USE OF CITY'S RAINY DAY FUND IN 2009 LESS THAN ORIGINALLY PROJECTED, WITH MODEST REPLENISHMENT LIKELY IN 2010; FINANCES STABILIZED DUE TO INCREASED INCOME TAX RATE

The city's financial position is expected to remain satisfactory based on its continued adherence to prudent fiscal policies and practices, and a demonstrated ability to respond to and recover from prior economic downturns. The city recorded sizable operating deficits from FY2001 through FY2003, largely resulting from lower than expected municipal income taxes and reduced state shared revenues. In response to the economic downturn, the city made significant budgetary cuts in FY2003, dramatically reducing the operating deficit to \$5.7 million. Although the operating budget continued to be structurally imbalanced, with measured draws continuing through FY2006, the city's financial position was boosted by one-time deferred lease payments from the Solid Waste Authority of Central Ohio (SWACO) to the General Fund reserve - \$56.6 million in FY2004 and \$10 million in FY2006.

The one-time revenue source allowed the city to reduce its structural deficit by FY2007 and retain a stable Budget Stabilization Fund (BSF) of approximately \$40 million. The city has an official policy to maintain this reserve at least 5% of budget and in FY2007, it equaled 6.8%. The FY2008 budget did not include any Budget Stabilization Fund appropriations, reflecting the city's commitment to maintaining adequate

contingency reserves. However, with the onset of the recession in FY2008, actual performance of the city revenues, including its municipal income tax, required the application of General Fund reserves, including a \$900,000 draw on the BSF. Compared to a budgeted 3.5% growth in income tax receipts, actual collections fell by 0.5% compared to FY2007 collections, or approximately an \$18 million shortfall in revenues. Further, as revenues were not expected to and have not recovered, city officials budgeted to use approximately \$40 million, or the remaining balance of the BSF in FY2009.

Recognizing the magnitude of the city's structural imbalance due to the rapid deterioration of income tax collection trends, city officials decided to request a 0.5% increase to its income tax rate. While the requested increase was a notable 25% over the existing rate, it was based on thorough deliberation over the level of services and infrastructure the city wanted to be able to maintain over the long-term. Favorably, voters supported the city's decision and approved the increase by a comfortable margin in August 2009.

Collections on the new income tax rate are expected to generate up to \$125 million annually, with three-quarters designated for general operations and one-quarter for capital and debt service requirements, consistent with the application of the city's total income tax rate. With an effective date of October 1, 2009, the new income tax rate generated approximately \$15 million in unbudgeted revenues. As a result, though the city had projected to use the entire \$40 million of the budget BSF, it in fact ended FY2009 with a balance of \$15 million. While this falls short of the city's 5% policy, city officials have further committed to restoring this reserve to \$50 million by 2014. The FY2010 budget is balanced, and included a 23% increase in income tax receipts, which is essentially flat to FY2009, taking into account full year's collection at the increased tax rate, compared to just one quarter in FY2009.

We believe that, although the city retains significant alternate liquidity in additional reserves and unused property tax levy authority, its decision to increase its income tax rate demonstrates a commitment to structural balance and ongoing adherence to the city's fiscal policies. This commitment is important given that the city's operating revenues are so heavily dependent on income tax receipts.

Alternate liquidity includes non-General Fund reserves retained for debt service coverage and an untapped general obligation levy for voter-authorized debt. The city has a long-standing practice to have voters approve bonds every three or four years for a projected capital plan, with the understanding that it will be able to pay for the debt from the one-quarter of income tax receipts designated for capital. In 2010, the voter authorized debt levy, not including that which is paid from alternate enterprise revenues, would generate \$83.9 million and \$81.6 million in 2011. Further, recognizing that paying debt out of an economically sensitive revenue source, the city imposes specific coverage requirements for any debt paid from income taxes that does not have support from alternate revenues. In FY2009, this Special Income Tax Fund had \$126 million of accumulated balance reserved for debt service, which is accessible for operating purposes by a vote of council. This approach to debt repayment creates potential additional operating flexibility, but we understand that city officials do not anticipate accessing this alternate liquidity. Instead, this alternate liquidity provides multiple layers of security to insure the repayment of the city's debt obligations on time and in full.

#### CONSERVATIVELY MANAGED DEBT POSITION, SUPPORTED BY UNTAPPED LEVY AUTHORITY

The city's manageable 2.8% direct debt burden may increase in the near term, given limited tax base growth in recent years, and continued annual borrowing needs. However, we expect the debt burden will remain manageable. The city's pro forma debt burden, including planned borrowing for 2011 increases to 3.6%, not factoring in debt that is expected to be paid from self-supporting essential enterprises such as the water and sanitary sewer funds. The city determines the amount of borrowing in accordance with an internal policy that requires dedicated income tax revenues to cover general obligation debt service by a certain coverage ratio defined by city officials. This coverage ratio is currently 1.3 times, but has ranged from 1.2 times to 1.4 times historically. This policy both governs the city's issuance of additional bonds and debt service reserve levels. As discussed above, this policy, along with the approach to voter authorization serves as a comprehensive approach to debt management that we view to be a critical component of the city's strong credit profile. The city has approached voters 18 times (generally every four years, except for a few consecutive years in the mid-1970s) since 1956 with 88 separate bond referendum questions, with voters approving 82.

The city has \$151.9 million of uninsured variable rate demand bonds in the weekly mode, a portion of which is enhanced by a standby bond purchase agreement from JP Morgan (senior unsecured Aa3/negative outlook) which expires in July 2012, and a portion of which is enhanced by the city's own liquidity. We believe that the amount of variable rate debt is manageable due to the city's ample liquidity. Further, the city is required by municipal code to make available all funds necessary to purchase any bonds that have failed to have been remarketed and hold them until the earlier of maturity or successful remarketing. The city is not party to any derivative transactions.

All General Obligation debt is repaid at an above average rate with approximately three-fourths of principal retired in the first ten years. Nearly half of General Obligation bonds are supported by enterprise utilities, which we have backed out of the city's debt burden calculations. The city also has a portion of enterprise debt issued as utility revenue debt for its water and sanitary sewer enterprises. The city plans to issue approximately \$400 million of general obligation debt in 2011, which includes approximately \$300 million related to enterprise-supported debt. The city will also refinance nearly \$30 million of Parking Garage Bond Anticipation Notes when they come due in December 2010.

#### Outlook

The stable outlook reflects our belief that, despite the current economic climate and the expected near-depletion of the city's available General Fund reserves in FY2009, the city will continue to maintain a healthy financial position over the long-term. This expectation is based on the city's ability and willingness to restore reserve levels, as demonstrated following the most recent prior recession in 2002, a variety of sources of revenue flexibility, and continued political and public support for necessary revenue enhancement measures. The stable outlook also reflects the city's sizeable tax base that benefits from a diversity of employers that Moody's expects will continue to support long-term gains in the city's income tax, its primary revenue source.

What Could Change the Rating Down or revise the outlook to negative

-Any indication of inability or unwillingness to restore reserve levels that would appropriately reflect its Aaa rating.

-A prolonged recession that further erodes the city's income tax base, resulting in insurmountable budgetary pressures in FY2010 and going forward.

-The reversal or relaxing of the city's prudent fiscal policies and practices.

#### KEY STATISTICS:

2000 Population: 711,470 (12.4% above 1990 census)

2010 Estimated Full Valuation: \$47.6 billion (Including areas in Franklin, Delaware, and Fairfield Counties)

2009 Estimated full value per capita: \$59,462

2000 Per Capita Income as % of State: 97.4%

2000 Median Family Income as % of State: 94.7%

FY2009 General Fund balance: \$51.6 million (8.4% of General Fund revenues)

FY2009 Special Income Tax Fund Balance: \$126.1 million

Debt Burden: 4.7% (Direct: 2.8%)

Amortization (10 years): 74.5%

Post-Sale G.O. Debt Outstanding (includes Limited and Unlimited tax): \$1.95 billion

The principal methodology used in assigning the rating to the City of Columbus' (OH) Series 2010A, 2010B, 2010C, 2010D, and Series 2010E bonds is "General Obligation Bonds Issued by U.S. Local Governments," published in October 2009 and available on [www.moodys.com](http://www.moodys.com) in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issue can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action for the City of Columbus (OH) was on November 19, 2009 when the city's general obligation rating of Aaa and stable outlook were affirmed. The rating was subsequently recalibrated to Aaa with stable outlook on April 23, 2010.

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